

SECRETTHE SECRETARY OF STATE
WASHINGTON

July 18, 1981

MEMORANDUM FOR: The President
 FROM: Alexander M. Haig 
 SUBJECT: Visit of Robert D. Muldoon, Prime Minister
 of New Zealand, July 24, 1981

I. The Setting

US-New Zealand relations are friendly and close. Prime Minister Muldoon's policies are strongly pro-American. He has consistently supported the US, and specifically its security posture in East Asia and the Southwest Pacific, frequently this has been in the face of domestic opposition. Currently, he has begun preparing for a November General Election in which his National Party, according to recent surveys, will face an extremely close race with the Labor and Social Credit Parties.

Prime Minister Muldoon has sought to meet with the leaders of the new U.S. Administration, especially the President, to validate his pro-American policies in the eyes of his party and the voting public. It is his desire to demonstrate that this thirty-year old alliance yields concrete benefits and more importantly that US leaders do not merely take New Zealand for granted but that instead we regard them as a partner and fully take their views into account.

II. Objectives State Dept. review completed

1. To express appreciation for the Government of New Zealand's (GNZ) support for efforts in countering Soviet expansionism, and to emphasize our desire to consult closely on matters of mutual concern.
2. To reaffirm the US commitment to reaching a just and enduring peace in the Middle East and to point out the critical role of a Sinai Multinational Force and Observers (MFO) in the peace process and the importance of a New Zealand contribution to the MNF.
3. To assure the GNZ that in its comprehensive review, the US has neither accepted nor rejected the LOS Draft nor the LOS process.
4. To outline the Administration's policy toward Asia particularly China, and reassure the GNZ that we will consult with them about Asian developments.

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5. To assure the Prime Minister that the Administration is fully aware of the importance that New Zealand attaches to greater market access for its agricultural products and to confirm that specific bilateral trade issues are being closely monitored at the highest levels of the Administration.

III. Issues

1. Western Strategic Posture and the Soviet Threat.

Soviet and Soviet-sponsored expansionism is the major threat to world peace in this decade. They have pursued a military buildup in all areas while the West was reducing its defenses and pursuing detente. We are embarked on a program to counter this threat and to increase substantially our military capabilities while reinvigorating the American economy which provides a sound base for U.S. actions. We are encouraging our friends to take similar steps. While we recognize that New Zealand's economic difficulties put limits on what the country can do, we hope that the GNZ will maintain its defense efforts and policy of sanctions against the USSR. The GNZ participated in the consultations with NATO on Poland and recently refused visas to Soviet figures. The arrangements worked out with NATO (trio system by which Australia and New Zealand are briefed by Canada, U.K. and the Netherlands) are the most comprehensive ever undertaken with out of area participants. Further refinements will probably have to await a more clear cut crisis situation as in an effort to prevent such a crisis, we have made clear to the Soviets the impact on East-West relations of their possible actions in Poland.

2. The Middle East Situation (Sinai Multinational Force and Observers)

New Zealand is a potential contributor to the Sinai Multinational Force (MNF). However, its economy is in difficulty, its armed forces are small, and it has an important trading relationship with Arab countries. It is carefully weighing participation in the MFO and its implications for their relations with Arab nations. The MFO was discussed during the ANZUS Council Meeting in Wellington June 23-24. We did not press for a decision at that time but instead expressed our hope that New Zealand would participate by supplying an air services support unit jointly with Australia, consisting of about 150 men and five unarmed fixed wing aircraft and 8 helicopters. We also explained that based on our own consultation with Arab Governments, we do not believe they will impose trade sanctions against countries participating in the MFO. New Zealand did not commit itself. It would be useful if you could reaffirm our strong desire for New Zealand participation in the force.

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3. Law of the Sea

New Zealand very much favors conclusion of a comprehensive LOS treaty. While they have a number of interests in a convention, they are particularly concerned with the need to secure treaty sanction of national control over living and non-living resources in a 200-mile economic zone and on the continental shelf which extends well beyond the zone adjacent to their coasts. Moreover, there are security aspects of the draft treaty related to navigation and overflight which they believe are important from an ANZUS perspective. In addition, the New Zealanders are sensitive to the interests of the many developing nations of the Southwest Pacific which are generally pro-West and are committed to concluding a treaty.

4. Administration's Asia Policy

I had successful discussions with the Chinese leaders which have injected new momentum into our bilateral relationships. I conveyed our intention to treat China as a friendly non-allied nation with which we share strong strategic interests. This is a natural development in the evolution of US-China relations. Accordingly, we will amend legislation which lumps China with the Soviet bloc. We will also loosen controls on export of dual-use technology. Any Chinese requests for military equipment will be considered on a case-by-case basis. We will consult where appropriate with our ANZUS allies regarding prospective military sales. The recently concluded International Conference on Kampuchea focussed international attention on Kampuchea and Vietnam's continued refusal to negotiate. The Conference's declaration provides a satisfactory basis for continued search for a settlement, and we will pursue this with ASEAN and other Conference participants.

5. Bilateral Trade Issues

New Zealand's export-dependent economy was badly hurt when the UK entered the EEC. It has searched out new markets, especially for its agricultural products (cheese, butter, beef, sheep). Iran, Iraq, and the USSR have become its newest and fastest growing markets for lamb and mutton. New Zealand has publicly argued that it cannot fulfill its ANZUS commitments, particularly replacement of major defense equipment items such as frigates, without greater access to US and European markets for its agricultural exports. Any US actions that would restrict the import of sheepmeats or casein (NZ is the major supplier of both these products, the latter being a protein made from milk) would have a serious impact on our bilateral relations. The question of how to dispose of the Commodity Credit Corporation's surplus butter stock, which is currently under interagency review, could seriously affect the international butter trade which at present is dominated by the EEC and New Zealand and is of great concern to the GNZ. You may wish to assure Muldoon that the Administration is giving New Zealand's concerns major consideration in the butter disposal problems and is opposed to Congressional proposals to restrict imports of sheep meat.

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VISITOR'S SCHEDULE

Visit of New Zealand Prime Minister Muldoon
and Mrs. Muldoon

July 23-25, 1981

Thursday, July 23

- 4:35 p.m. - Arrival at Dulles Airport - TWA 890
- 7:30 p.m. - Private Dinner with Ambassador and Mrs. Gill at Blair House

Friday, July 24

- 11:30 a.m. - 12 noon - Meeting with the President at the White House
- 12 noon - 1:30 p.m. - Official Working Luncheon at the White House
- 8:00 p.m. - Dinner hosted by Ambassador and Mrs. Gill at the New Zealand Residence (Black Tie)

Saturday, July 25

- 11:00 a.m. - Open Shuttle Flight to New York - N.Y.Air

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1. WESTERN STRATEGIC POSTURE AND THE SOVIET THREAT

In the past decade the Soviet Union has changed from an essentially continental power to one with a global reach. While modernizing their land forces, the Soviets have undertaken an unprecedented build-up of their fleet and have continued to strengthen their air and nuclear forces, enabling them to project their power throughout the world, both directly and through surrogates.

In Europe, through military threats and blandishments of arms control and economic cooperation, they are waging a campaign to split NATO while exerting massive pressure to ensure that the bloc countries, especially Poland, remain under Soviet control. In Southwest Asia, the USSR, through its invasion of Afghanistan, has established another satellite, exacerbated regional instability and placed itself in a position to threaten access to Persian Gulf oil. In Africa, Latin America, and Indochina, the Soviets continue to support proxy forces and subversive activities.

US policy is designed to put restraints on Soviet capability to act globally. We are embarked on a program to increase substantially our military capabilities, while reinvigorating our economy. We are encouraging our friends and allies to increase their defense capabilities. If the international situation permits, we are prepared to pursue arms control agreements that enhance US and Allied security.

In connection with Poland, we have been in close touch with the New Zealanders since last December. Bilaterally, we have briefed them on our assessment of the situation and on NATO contingency planning.

More important, the Alliance itself has taken the unprecedented step of bringing New Zealand (together with Australia, Japan and Spain) into that contingency planning process through systematic, instructed meetings conducted by trios of NATO member countries. Our NATO Allies also have agreed to invite high level representatives of these four governments to post-invasion NATO deliberations. The Allies are agreed on the need for quick decisions on effective sanctions should there be a Soviet intervention. Although the proposed sanction centerpiece--a general embargo--poses problems for the New Zealanders, they recognize the necessity of swift and effective countermeasures.

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2a. MIDDLE EAST PEACE PROCESS AND SINAI MULTINATIONAL FORCE

New Zealand is concerned about our overall approach to the peace process beyond the Egyptian-Israeli Treaty of Peace. The virtual certainty that Begin will form the next Israeli Government and that it will continue its settlements policy in the occupied territories reinforces the doubts some of our allies have about the prospects for success of the autonomy negotiations. The Lebanon crisis and the Tuwaitha attack add to their concerns that we need to reinvigorate our efforts on the peace process, and in this regard Muldoon would like us to be more forceful with the Israeli Government.

We will want to emphasize that in the aftermath of the Israeli attack on the Iraqi nuclear facility it is all the more important to strengthen the existing basis for the peace process. The next immediate step in the Camp David process is to bring into force the agreement we have reached with Israel and Egypt for the establishment of a Multinational Force and Observers (MFO) in the Sinai, which is to assume its peacekeeping duties upon final Israeli withdrawal in April 1982. At the ANZUS meeting in Wellington in June, the Secretary expressed our hope that New Zealand will participate in the MFO by contributing part of an air support unit along with Australia. Muldoon has been wary of the idea. We should stress to him the central importance of the MFO in the implementation of the Israeli-Egyptian Treaty of Peace, which in turn is the bedrock for our efforts to advance the peace process.

The President will be meeting in Washington with Sadat August 5-6 and with Begin September 9-10, to discuss resuming the peace process which has essentially been in suspension since late last year. Our objective is to bring the autonomy negotiations to a successful conclusion, thereby taking an important first step toward resolving the issue of the future of the Palestinian people in a manner satisfactory to all concerned.

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2b. MIDDLE EAST -- OTHER ISSUES

Muldoon has played a personal role in IMF and World Bank deliberations on possible PLO observer status at annual meetings. In 1979 Muldoon, as Chairman of the meetings, refused to invite the PLO. In 1980/81, Muldoon chaired a group studying the 1980 decision which excluded the PLO. The question of PLO observer status is still under review by the institutions' Executive Boards, and we are hopeful procedural decisions last June will prevent the issue from arising at this fall's annual meetings.

Following a week of escalating cross-border violence, including Israeli air attacks into Lebanon and Palestinian rocket attacks on Israeli towns, the President has sent Ambassador Habib to Israel to work to secure a cease fire. This is the essential first step to restoring a measure of stability to this area and to continuing our broader effort to reach a diplomatic resolution of the complex problems of Lebanon, including that of Israel's confrontation with Syria over Syrian missiles in central Lebanon. Our objective remains to work towards restoring the authority of the Government of Lebanon and the long-term stability of the country.

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3. LAW OF THE SEA

New Zealand, an island nation, has navigation as its principal concern in the Third U.N. Conference on Law of the Sea (UNCLOS III). It is particularly dependent on maritime navigation for trade and is vulnerable to actions by other states which may interfere with navigational rights. The navigation provisions of the LOS Draft Convention are also viewed by New Zealand as essential to the ANZUS alliance. The potential for offshore oil around her coastline is being explored, and fishing grounds off her coasts remain targets of foreign fleets. New Zealand has little interest in seabed mining, which is the source of many of our problems with the current text. New Zealand's navigation and resource interests are, in their view, well protected in the Draft Convention on the Law of the Sea now before UNCLOS III. New Zealand is also acutely aware of, and supports, the interests of the developing island nations of the Southeast Pacific, which very much favor the conclusion of a treaty.

In view of the balance of New Zealand's interests, it is not surprising that they are generally displeased with the U.S. decision to review our entire Law of the Sea policy and to refuse to make commitments at least until the review is completed this fall. They have expressed their displeasure in a lengthy letter from Foreign Minister Talboys to Secretary Haig and during Secretary Haig's visit to Wellington for ANZUS. Detailed discussion of mutual concerns have also been held by the Special Representative for the Law of the Sea with New Zealand experts. The New Zealanders would like us to commit ourselves, before the upcoming August session of UNCLOS III, to resume negotiations in that forum and to keep our demands to a minimum. We are not in a position to make either commitment.

We can assure them that no decision either for or against proceeding further in UNCLOS III has been made, nor will be made until after the August session. We hope New Zealand will promote its overall LOS interest by playing an active role in managing the August session so as to avoid formalization of the current text or adoption of any amendments contrary to U.S. interests.

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4. ADMINISTRATION'S ASIA POLICY

Muldoon will be most interested in China and Kampuchea. Secretary Haig discussed both at the ANZUS Council meeting in late June, but Muldoon will seek your perspective.

China: Secretary Haig's June 15-17 visit to Beijing injected new momentum into our bilateral and strategic relationships. Our policy is based on the premise that China is not an adversary of the U.S. and that a healthy U.S. relationship with China is important to U.S. global strategy as well as a key to stability in Asia.

It is in our interest to assist China's modernization. We will treat China as a friendly nation with which we are not allied but with which we share common interests. The Administration will amend legislation which lumps China with the Soviet Bloc and will loosen controls on exports of dual-use technology to China. We intend to move to a case-by-case approach to munitions control with China, putting any Chinese requests on the same footing as we apply to requests from all other friendly nations. This is not an undertaking to sell arms, only to consider requests in a non-discriminatory manner.

We expect this aspect of our relationship to develop in a careful, gradual way. The U.S. is aware of the reservations of ASEAN and other Asian/Pacific friends and allies concerning this new aspect of our relationship with China. We will, whenever appropriate, consult with our allies and friends regarding prospective sales of military equipment.

Kampuchea: The UN-sponsored International Conference on Kampuchea has just concluded in New York. There were differences between ASEAN and China on tactics but a consensus emerged on two key goals: The Vietnamese must withdraw their troops and the Khmer must determine their own future without foreign interference. The conference focussed international attention on Vietnamese occupation of Kampuchea and its continuing refusal to negotiate a settlement. It set out a framework for a satisfactory solution and established a mechanism to continue the search for a settlement. There will be future sessions; the door is open for Vietnam to attend later. The conference also provides the Soviets the means to resolve a major cause of East-West tension.

Without taking sides, the U.S. urged both ASEAN and China to compromise their differences (which they largely did). New Zealand was supportive of the ASEAN position on the issues of disarmament of the Khmer factions and provisions for an interim government pending free elections.

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5. BILATERAL TRADE ISSUES

CASEIN: A milk byproduct not produced domestically, casein is a major New Zealand export to the U.S. (\$81 million in 1980). It is imported duty-free without quota restrictions. The dairy industry wants to restrict casein imports because it feels these depress non-fat dry milk (NFDM) prices. Congressional pressure triggered a USDA casein study. After reviewing this, Secretary Block decided imported casein may materially interfere with or threaten the domestic price support program. He recommended that the U.S. International Trade Commission (USITC) initiate an investigation to determine if casein import restrictions are warranted. A 1979 USITC study found "virtually no relationship between casein imports and purchases of NFDM under the price support system." New Zealand believes U.S. import restrictions would violate our obligation under the General Agreement on Tariffs and Trade (GATT).

LAMB: The U.S. countervailing duty (CVD) statute provides relief for U.S. industries competing with subsidized imports. If the subsidizing country has signed the GATT Subsidies Code, it must be shown that a U.S. industry is being injured by such imports before countervailing duties can be imposed. New Zealand has not yet signed the Code and does not benefit from this injury test. U.S. wool growers have recently filed a CVD complaint against New Zealand's subsidized lamb exports to the U.S. (\$35 million in 1980). The GNZ believes that if these exports benefited from the injury test no countervailing duties would be imposed. A USG team will be in Wellington July 19-24 to discuss possible New Zealand accession to the Subsidies Code.

BUTTER: We are currently faced with the problem of dealing with 200,000 tons of surplus butter, purchased by the Commodity Credit Corporation under the dairy price support program. As an alternative to expensive storage, the Administration is exploring ways to export the butter. Since U.S. butter prices are far above the world price, such exports must be heavily subsidized. The main potential customer for the butter is the U.S.S.R., a politically undesirable destination. We have been trying to find a way to dispose of the butter without either disrupting the world butter market or selling the subsidized product directly or indirectly to the Russians. The major butter exporters, New Zealand and the European Community, are very concerned about our plans. New Zealand has explored with us the possibility of purchasing the U.S. butter, processing it, and re-exporting it to countries outside the Soviet Union. No firm offer has been made by either side. Other possibilities under review include government-to-government sales to countries other than the U.S.S.R., sales to the private trade and continuing to hold the butter. No decisions have been made.

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TOAST FOR THE PRESIDENT'S USE AT LUNCHEON IN HONOR OF
NEW ZEALAND PRIME MINISTER ROBERT D. MULDOON
FRIDAY, JULY 24, 1981

Mr. Prime Minister and distinguished New Zealand guests:

- It is a special pleasure to welcome you here today. Our meeting this morning has been exceptionally friendly and candid, like the relationship that our two countries have enjoyed these past three decades.
- America and New Zealand share a common heritage. We have fought side-by-side in every major war in this century. The need for us to stand together to protect the peace and prosperity of the Western nations remains as strong today as it has ever been.
- New Zealand has played an important role in assisting new countries of the Pacific to become independent and to develop economically. We applaud the financial assistance and training New Zealand provides to the Pacific Island states.
- I and my Administration are pledged to strengthen and enhance our cooperation with our closest allies. Discussions, such as ours today, are an important part of this process.
- Gentlemen, let us toast Prime Minister Muldoon and his many invaluable contributions to the deep friendship between the United States and New Zealand.

SUGGESTED REMARKS TO BE MADE BY THE PRESIDENT UPON THE
DEPARTURE OF PRIME MINISTER MULDOON FROM THE WHITE HOUSE

JULY 24, 1981

It has been a pleasure for me to meet and get to know Prime Minister Muldoon of New Zealand. The Prime Minister leads a country that has for a long time been one of our closest friends and staunchest allies. Our meeting today has allowed us to review a number of bilateral issues affecting our relations, and we have reached a clear understanding on all issues discussed.

The timing of our meeting was fortuitous, as it allowed me to brief the Prime Minister on the recently concluded Ottawa Summit, and to discuss matters of continuing concern, such as Poland and Afghanistan.

I want to thank Prime Minister Muldoon for coming to Washington, and would like also to thank the people of New Zealand for the supportive and constructive role they have played for so long.